

Balancing promises and costs of war; NATO wants Canada to up military spending, but that's only the first step toward modernization

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Body

Russia's war on Ukraine was fully underway three weeks ago when the leaders of Canada, Latvia and Spain and the head of NATO stood overlooking a muddy brown field in Latvia strewn with light armoured vehicles.

Standing a few hundred kilometres from the Russian border, gun-toting soldiers of 10 different NATO countries had paused a live-fire combat exercise that suddenly seemed more urgent.

At a tactical level, Col. Sandris Gaugers, the gruff commander of Latvia's Mechanized Infantry Brigade, told the politicians that the multinational troops - led by Canada - were working well together after five years of "hard work."

"We've been taking the approach on the deterrence side (that) the more flags, the better it is."

"But eventually when deterrence goes sideways ... we have to make sure that we are able to fight."

In other words, this wasn't just a show of multilateralism for the NATO muckety-mucks. Rather, it was a display of the constant military planning and training that is producing an effective fighting force on Latvian soil.

Gaugers said "basically it's a non-stop war ... But with everyone working together, it's doable, okay."

Hours later, NATO Secretary-General Jens Stoltenberg hailed Justin Trudeau after the prime minister extended Canada's leadership of the NATO mission in Latvia indefinitely. Canada has also committed 460 more air, sea and land soldiers to the region, and put another 3,400 on standby as tensions rise in eastern Europe.

However the following week, the NATO secretary-general made clear that still more is expected:

"Major increases to our deterrence and defence will require major investments," he said. "Allies need to invest a minimum of two per cent of GDP on defence."

It's the famous two per cent threshold - a level of spending that, if reached, would change not only Canada's military and its role in the world, but also potentially the overall fiscal and policy landscape of the country.

All NATO member countries agreed in 2006 to increase their military spending to two per cent of their overall economies, as measured by gross domestic product or GDP.

But after the global financial recession in 2008-09, defence spending by many allies including Canada dropped.

In 2014 after Russia annexed Crimea, NATO leaders pledged to halt the decline and recommitted to reach the two per cent target by 2024.

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It is a metric that fewer than a third of NATO countries meet, and which shows Canada as a laggard, ranking 25th out of 29 members.

In Canada's case, two per cent of GDP represents a whopping figure, and a big increase over what Ottawa now spends on the military.

Let's do the math.

The Liberal government's fall economic update projected Canada's economic output or GDP this year would reach \$2.4 trillion.

Thursday's federal budget will give more updated figures, but the Parliamentary Budget Office has already flagged the economy is doing better than previously thought.

In an interview with the Star, Yves Giroux, the parliamentary budget officer, estimated that Canada's 2022 economic output will be more like \$2.7 trillion this year and \$2.8 trillion the year after that.

Hitting NATO's two per cent target would mean spending \$54 to \$56 billion a year on defence, he said.

That means Ottawa would more than double its current spending on national defence, which the main estimates pegged at \$25.7 billion for the fiscal year that just ended.

For comparison's sake, consider the Canada Health Transfer is \$45 billion a year. The national child-care program, once fully going, will cost about \$9 billion a year. Another \$45 billion will be spent on Indigenous services and reconciliation, including \$20 billion to settle the many lawsuits connected to the fallout from residential schools in substandard child welfare and health services. There's a brand-new \$9-billion plan to help Canada meet its climate action targets.

How would Canada even absorb that additional military spending?

Not easily, according to retired Lieut.-Gen. Mike Day, a former special forces commander.

"To spend that kind of money, you need to have a clear idea of what it is you actually want to do with it," he said.

"It would require a fundamental rethink of how Canada thinks at home, how Canada thinks about North American defence and how Canada thinks of expeditionary operations; it is a massive influx."

Giroux said spending at that level would mean recruiting more CF members "which the government has struggled with, in recent years." Ottawa could increase purchases of equipment, but as the budget office just reported it's hard-pressed to keep up with its current procurement plans. Lapsed capital spending keeps getting "re-profiled" into years ahead on the books.

Giroux injects a perhaps unwanted dose of reality.

If the government "was to remain committed to decreasing the debt-to-GDP ratio target ... and also deliver on its other platform commitments, which we estimate amount to some almost \$50 billion over the next couple of years, and at the same time, increase spending on national defence, I think there will need to be tax increases."

The truth is, when all political parties in Parliament say the biggest challenge for the government is addressing "affordability" at a time of rising inflation, tax increases seem the least likely policy choice Finance Minister Chrystia Freeland, Trudeau's deputy prime minister, would make.

Still, NATO wants more. More boots on the ground, more eyes in the sky, ships at sea, and more weapons in hand.

So too does Ukraine.

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Five members of Ukraine's parliament on Friday made a passionate plea to Canada for urgent help: to supply more weapons, apply more sanctions and give financial aid to keep Ukraine afloat. "Freedom must be armed," they said.

Will this week's budget be the historic moment where that all changes?

Don't count on it.

Let's look back: the Liberal government had already planned to raise defence spending, and was in the process of doing so - per the 2017 defence plan called "Strong, Secure and Engaged."

It focused Canada's defence policy on domestic, continental and international commitments - and outlined rising spending over the next decade.

That plan plotted a steady increase from \$18.9 billion a year in 2017 to \$32.7 billion by 2027 - a roughly 73 per cent hike in actual spending.

It was to cover operating expenses to recruit more regular and reserve forces personnel, and the capital costs to buy new Arctic patrol vessels, modern combat ships, fighter jets, maritime patrol aircraft, ground-based air defence systems, and an upgraded Light Armoured Vehicle fleet among other items on a lengthy shopping list.

Just last week, Defence Minister Anita Anand said the purchase of the 88 fighter jets will go ahead, and - despite a Liberal campaign promise never to buy the U.S.-made F-35 stealth fighter that the Conservatives had once sole-sourced - the F-35 was the finalist in the Liberals' revamped competition.

Still, that planned spending gets Canada nowhere near the two-per-cent-of-GDP target.

Even if the Liberal government were to accelerate those expenditures, it would only get to about 1.5 per cent of GDP, estimated David Perry, president of the Canadian Global Affairs Institute.

The global security landscape has profoundly changed since the last federal budget.

Russia's war on Ukraine shocked the world, upended decades of relative stability in Europe, encouraged autocrats, and united global leaders who say it is an attack on democracy everywhere.

Trudeau himself said in Brussels a week ago, "We cannot let Ukraine down."

In London, Trudeau admitted more might be necessary, given "that context is changing rapidly around the world."

"As members of NATO, we will continue to look at what more we can do."

The latest report from NATO on Thursday is only adding to the pressure on Canada to do more.

Its 2021 annual report, using data up to early February, showed Canada was spending \$33.6 billion, or 1.36 per cent of GDP (slightly less than last year's estimate of 1.39 per cent) on defence.

What counts as defence spending for NATO's purposes, like pensions for veterans or spending on R&D, doesn't exactly align with what is counted as defence spending in the Canadian budget or estimates.

Perry, the foremost expert on defence economics in Canada, said NATO counts about \$6 to \$8 billion in other expenses that come under different departmental budgets.

It's an exercise complicated by the way different countries account for things like Coast Guard cutters, or icebreakers that make way for warships, or shared IT services.

Perry says under the Liberal government, Canada is "the sixth largest spender in NATO in terms of absolute dollars. But we're a rich country. So when you convert that to the share of the economy, that's when we look bad."

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He is one of many - including critics in the Conservative-led official Opposition - who believe at a minimum, Canada has to lay out a plan to reach the NATO two per cent target in the years ahead.

Perry would like to see the government put forward "a concrete plan to at least narrow that gap significantly," by aiming for 1.7 per cent of GDP.

"That would provide us with a meaningful increase in the medium term. And we could work towards two per cent beyond that, recognizing that it is a really significant financial commitment," he said.

So let's look ahead to this week's budget and beyond:

Anand told CBC's "Power and Politics" she would submit three "aggressive" spending options to Freeland: to exceed the two per cent target, to hit it, and to raise spending, but below the target.

Nobody in cabinet, including the prime minister, has since reinforced those comments. And Anand has not repeated them. If anything, she's downplaying expectations. She declined the Star's request for an interview. Spokesperson Daniel Minden said along with the 2017 plan "we are prepared to do even more."

But how much more - and to what end - are big questions.

Over the past several decades, governments of all political stripes in Ottawa have viewed defence policy through a similar lens.

Yet, retired Vice-Admiral Mark Norman said in Canada we tend to focus on the "Harper defence policy" or the "Trudeau defence policy." What that does is tie defence policy "to a political brand, as opposed to looking at it from the perspective of the broad principles and how they endure or don't endure," he added.

And governments tend to focus on "shopping lists," which Norman said doesn't answer the larger question of what Canada's role and strengths are especially in a changing threat environment.

"As the threat environment changes, so too should defence policy be updated," he said.

Whatever else an update would produce, he and other experts who spoke to the Star said one of Canada's biggest outstanding IOUs is to modernize NORAD, the joint American-Canadian command responsible for continental defence.

They say that could mean imagining a "systemic set of capabilities that go from space to the seabed" - everything from satellite technology, new long-range radar and sensors that can look north and elsewhere as required, underwater sensors that can monitor maritime approaches, cyber resilience, command and control capability, improved airborne reconnaissance and surveillance - which means manned aircraft and unmanned aerial vehicles - airborne refuelling and submarines.

It's a massive project, said Perry, that could cost anywhere from \$20 to \$100 billion over several years.

However, Perry said, even "if we don't want the military to do a single thing different" then "there's some things we should put money into right now to fix deficiencies."

He and others list hiring enough people to fill the roughly 10 per cent shortfall in CF personnel, timely maintenance of equipment, "significant" repairs to DND's sprawling and decaying infrastructure, not just actual buildings but its digital systems as well.

Canada's former NATO ambassador Kerry Buck, a fellow at University of Ottawa's graduate school of international affairs, would prioritize Arctic security and NORAD modernization, but added Canada needs to review and update its national security and foreign policies.

"It doesn't make sense" for Canada to spend money without a clear understanding of its role in the world, she said.

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"Almost every defence job we have to do ... we're going to be doing it alongside some other ally," she said. "So we need to start from the question, what are our interests? And what are our allies doing? And what gaps do we need to fill rather than trying to do it all?"

Mike Day, the retired special forces commander, said the Canadian Forces knows its strengths.

"Look at the role we played in Iraq ... in Afghanistan ... in the Balkans in the '90s. We are a dependable First World, world-class military, albeit tiny," he said.

Canada shouldn't try to be "a smaller version of the U.S. military. And I would argue we shouldn't want to. We're not a military superpower. We are a very effective military power on a small scale."

Day suggests Canada's military could better serve and protect sovereignty and have greater "strategic impact" through embracing innovation in surveillance technology and military engineering capacity - meaning the expertise to maintain and build routes, go across rivers, go across valleys, skills that are useful in "any international deployment ... but also terribly useful when you think about the massive, increasing impact of climate change on Canada's infrastructure, transport infrastructure."

"And therefore...my answer is, there are things we can expend money, time and effort on that give us an outsize impact with our allies and give us the choice to decide where and how we're going to participate in these expeditionary operations. That's where I would focus."

Ahead of this week's budget, a senior federal government official, speaking on condition they not be named, told the Star that is exactly where the Liberal government's head is at. The government says the fact is Canada does not have a massive standing army like the U.S., or for that matter Turkey.

It doesn't face the same "geopolitical" imperative as the Baltic states and Poland which border Russia, and which do hit the NATO two per cent target.

The insider with direct knowledge of the budget deliberations said in any case, the NATO target "is not the full story" of what Canada now contributes.

"And we just have to ultimately make the decisions based on what do we need to do for Canadians, for the troops and to play the role in the world that we want to play."

The official said in the context of Ukraine's needs and the "current situation" that it is "not difficult to identify spending that you can do right now."

Beyond that, the government recognizes the need to update the 2017 national defence policy after five years to reflect the new reality that "there's a much more aggressive Russia" and everything that means "for our collective security," the insider said. Renewed efforts to modernize NORAD would fit into that category.

"So that's what you need to do as a precursor to a more sustained spending plan."

So is there a more sustained increased spending plan coming?

The short and the long answer is no. There will be money to address the immediate situation, but the official said, "I don't think you will see in this budget the path to two per cent at this time."

"I think you will see a commitment to the Canadian Forces and to providing what we need to keep Canadians safe and to pull our weight in the world."

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